



Department of Planning and Community & Economic Development

Community Development Division

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Child Care
Community Resources
Community Development Block Grant
Madison Senior Center

City of Madison Community Development Division Loan Subordination Policy Residential/Rental/Multi-Family/Facility Guidelines

The City of Madison Community Development Division (CDD) will consider a loan subordination request where the subordination results in one of the following:

1. Non-cash out simple refinance, such as interest rate reduction and/or there is a mortgage loan product change (e.g. when a balloon or adjustable rate mortgage (ARM) matures and the owner switches to a fixed product). The new first mortgage loan cannot exceed the current mortgage loan balance secured ahead of the CDD loan (excluding reasonable lender fees).
2. Cash out refinancing where the project owner/borrower seeks to use a portion of their appreciation for home property improvements.
3. The Community Development Grants Supervisor or designee is authorized to approve such request where the City's financial position improves or remains unchanged from original approval.

Conditions for Consideration on Single Family Property:

- A fully completed Subordination Request package must be completed by the lender and emailed to the CDD at homeloans@cityofmadison.com. Checklist can be found at [this link](#).
- The lender will be responsible for filing the subordination documents and paying for filing fees. Subordination fees are \$150 for no cash-out or \$250 for cash-out refinance only for home improvement.
- The CDD loan shall be in no less than second position. (May occasionally allow subordination to third position; for example, when doing a Home Equity Line of Credit (HELOC) for home improvements.)
- Must be current with property taxes.
- A commitment letter will be required from the mortgage lender detailing the term and condition of the new loan, total loan amount, interest rate and loan product. If there is a Land Use Restriction on the property, the letter must state that the mortgage holder understands the restriction will remain in place until the period of affordability has been completed.
- The combined loan to value (CLTV) on the property cannot exceed 80% CLTV for any cash-out refinance. (70% CLTV for loans with City Property Tax Assistance for Older Adults or Special Assistance Loan.) A copy of an appraisal or documentation used by the first mortgage lender to determine value dated no more than six month from the time of the subordination request must be submitted to verify value.
- Uses of cash out proceeds must be for home improvement only: Must provide bids for the anticipated home improvements.

Conditions for Consideration on Community Facilities and Rental Housing Properties:

- A fully completed Subordination Request worksheet must be completed by the project owner/borrower and emailed to the CDD at homeloans@cityofmadison.com along with required documentation.
- The project owner/borrower will be responsible for filing the subordination documents and paying for filing fees.
- The CDD will review the borrower's or agency most recent audit, financial statements and projected 15 years pro-forma (for rental properties) for the property in question. The property must have healthy reserves.
- The CDD loan shall be in no less than second position.
- Must be current with property taxes, if applicable.
- A commitment letter will be required from the first mortgage holder detailing the term and condition of the new loan, total loan amount, interest rate and loan product. If there is a land use restriction on the property the letter must state that the first mortgage holder understands the restriction will remain in place until the period of affordability has been completed.
- The combined loan to value (CLTV) on the property cannot exceed 95% LTV for any cash out refinance. A copy of an appraisal dated no more than six months from the time of the subordination request or documentation used by the first mortgage lender to determine value must be submitted to verify property value.
- A cash-out refinance for a temporary budget gap must not exceed 10% of the annual budget for the program that will be directly supported by the cash out refinance.
- A financial plan for the program that will be supported by the cash-out refinance must be submitted showing a balanced budget for the year following that in which proceeds of the cash out refinance are spent.

Administration and Appeal

The CDD will require a minimum of 10 business days to review documents and make a determination to approve/disapprove. CDD staff will provide a final written underwriting decision to project owner/borrower/lender. If approved, the Mayor's authorized signature of the Subordination Agreement will require an additional 10 business days.

Any appeals of a loan subordination decision shall be made to the CDBG Committee.